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## China, Peoples Republic of

### Agricultural Situation

### Grain and Oilseeds Highlights

### 2008

**Approved by:**

William Westman  
AgBeijing

**Prepared by:**

Mark Petry, Wu Xinping, Jiang Junyang

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**Report Highlights:** Good weather in Northeast China and other areas continue to solidify high expectations of a good harvest. Total oilseeds production is expected to be six percent higher in marketing year 2008/09, while new soybean projections are significantly higher than last year. High levels of imports and declining global oilseed product prices have recently led to a rapid decline in Chinese vegetable oil prices, with soybean oil experiencing a 21 percent price decline in the last month.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Annual Report  
Beijing [CH1]  
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## Oilseed Situation

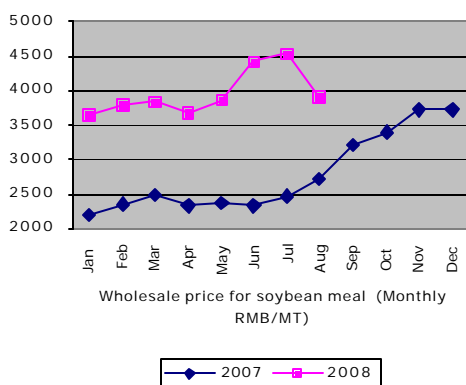
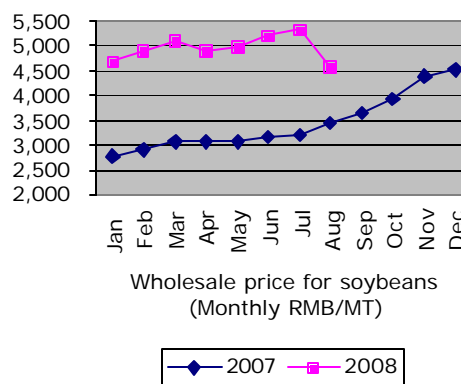
### MY08/09 total oilseed production expected to increase by 3.4 MMT

The domestic oilseed production situation remains generally unchanged as reported in GAIN CH8062. MY08/09 domestic oilseed production is expected to reach 56.2 MMT, mainly due to an anticipated increase in soybean and rapeseed production. This is 3.4 MMT higher than the adjusted total oilseed production of 52.8 MMT in MY07/08. The China National Grain and Oils Information Center (CGNOIC) also recently raised its projected Chinese MY08/09 soybean production to 17.5 MMT, an increase of 37 percent over their MY 07/08 estimate.

In the Northern China Grain Production Conference held on August 20, China's Minister of Agriculture reiterated that autumn grain crops in North China reached a critical maturation period and requested that all agriculture related organizations enhance crop field management and prevent natural disasters/diseases in order to gain a good harvest. The fall grain harvest accounts for 70 percent of the nation's total grain production and current crop growth (including rice, corn, and soybeans) is rated as relatively good. Industry sources also reported that soybean growth in the Northeast China was rated as good.

### Demand for oilseed products continues to grow as prices decline

MY08/09 soybean imports are forecast at 38 MMT, up seven percent from the estimated 35.5 MMT for MY07/08. Total soybean imports for MY07/08 are expected to be 500,000MT higher than the July estimate. As of the end of July, MY07/08 soybean imports were 30 MMT, up 24 percent over the previous year. Soybean imports in August are estimated at 3.4 MMT, while September imports are expected to be 2.5 MMT. Additionally, MY07/08 soybean oil and palm oil imports are also expected to increase by 500,000 MT and 400,000 MT, respectively, from the 2.4 MMT and 5.1 MMT in the previous year.



Global prices for oilseed products began declining in August from the record highs in the previous month. According to CNGOIC, the average wholesale price for soybeans in the first twenty days of August declined to \$664 from the record-high of \$770 per metric ton in July. The average wholesale price for soybean meal and soybean oil in the first twenty days of August also fell to \$565 and \$1,261 per metric ton, down 14 and 21 percent, respectively, from the previous month. The wholesale price for palm oil decreased sharply to \$1,120 per metric ton, down by 23 percent from \$1,449 per metric ton in July.

Note: All wholesale prices are based on CNGOIC; August prices are average wholesale prices in the first 20 days in the month.

On August 15, one of the largest multi-national vegetable oil brands announced a ten percent price decrease for bottled vegetable oil in the retail market. Another large domestic brand followed suit, reducing prices for its vegetable oil by 10 percent on August 18. These price reductions indicate excess supply due to a combination of factors, including large imports (soy oil, palm oil, and soybeans), rapidly decreasing international prices, elimination of VAT rebate for vegetable oil exports in June, and increased domestic production forecast.

Demands for vegetable oils and animal products are expected to recover in time for the upcoming National Day holiday in the first week of October. According to National Statistics Bureau, the CPI in July declined to 6.3 from the 7.1 in the previous month. Some experts believe CPI in August will fall to 6.0 or lower.

### The first edition of bulk agricultural commodity import information released

On August 20, China's Ministry of Commerce (MOFCOM) published the first set of results from the bulk agricultural commodity import information system.

<http://wms.mofcom.gov.cn/column/print.shtml?wb/200808/20080805734008>

MOFCOM implemented its bulk agricultural commodity import reporting system on a trial basis on August 1, 2008 (GAIN 8062). The first edition covered import information for six commodities (soybean, soybean oil, rapeseed, rapeseed oil, palm oil, and soybean meal) based on reports submitted by importers from August 1 to 15. It also contained information on volume loaded and arrived by origin and destined region, respectively, for the reporting period. Anticipated arrival volume by destination for the next reporting period is also included. In the future, the bulk agricultural commodity information will be released every two weeks. MOFCOM officials state that the purpose of the reporting system is to facilitate trade through the publication of reliable information. Given its current structure, industry sources expect limited or no trade impact due to the implementation of the system because it compliments numerous other sources of information on the oilseed and vegetable oils trade.

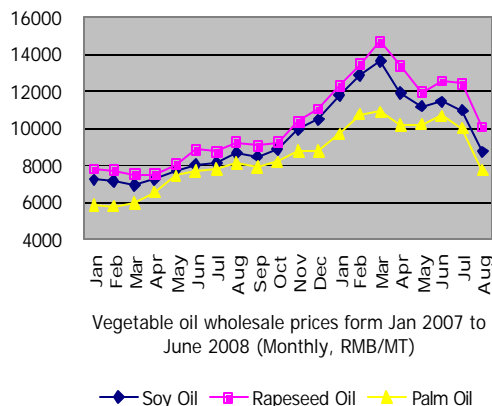
### Trade policy remains unchanged

In an effort to maintain a stable supply of oilseed products in domestic market and curb the CPI growth, various preferential tax/duty policies have been in force since the end of 2007 (GAIN CH8062). These policies remain in effect but may change in line with the domestic supply and demand situation.

### Grains Update

#### A bumper corn harvest expected in MY08/09

Due to favorable weather, government officials and traders are expecting a bumper corn crop in northeastern China in MY08/09. The crop conditions in the major production provinces are above the five year average. A preliminary survey by some private agencies showed that the number of ears/acre and number of kernels /ear are higher than the previous year. The adequate rainfalls and temperatures received this summer have been conducive to healthy and stronger plants. AgBeijing will join the crop tour to evaluate corn



production in Northeast provinces organized by the US Grains Council that starts September 21.

### **Early frost might not appear this year**

Potential frost damage in late September normally is a big concern for corn farmers in Northeast China. However, based on recent weather patterns, in similar years the first frost in the northeast appeared in October, after the corn is mature. Thus, local agricultural officials in Heilongjiang Province are forecasting good crop prospects without frost damage in MY08/09.

According to local agricultural officials in Liaoning province, production costs for corn in MY08/09 are estimated to be up 15 percent reaching \$330/acre (or RMB 375/mu) and the purchase price for new crop (with 35% moisture content) is forecast at \$176/ton (RMB1,200/ton).

### **Sugar Update**

#### **Record sugar production helps slow down industrial corn use**

Due to favorable weather conditions, MY07/08 sugar production reached a record 14.84 million MT, up by 23.75 percent year on year, according to China Sugar Association. The average sugar price has been about \$441/ton (RMB3,000/ton) in MY07/08, down by 11 percent from the previous year. Due to this relative lower price, more sugar is being used by the food processing industry in replacement of corn-starch based sweeteners. The reduced use of corn sweeteners is estimated will contribute to a slowdown in industrial use of corn in MY07/08.